

**UCLA**

**UCLA Previously Published Works**

**Title**

What Do We Know About Export Diversification in Oil-Producing Countries?

**Permalink**

<https://escholarship.org/uc/item/6mz121ht>

**Author**

Ross, Michael L

**Publication Date**

2019-06-16

Peer reviewed

# Oil and International Cooperation

MICHAEL L. ROSS

UCLA

AND

ERIK VOETEN

Georgetown University

The more that states depend on oil exports, the less cooperative they become: they grow less likely to join intergovernmental organizations, to accept the compulsory jurisdiction of international judicial bodies, and to agree to binding arbitration for investment disputes. This pattern is robust to the use of country and year fixed effects, to alternative measures of the key variables, and to the exclusion of all countries in the Middle East. To explain this pattern, we consider the economic incentives that foster participation in international institutions: the desire to attract foreign investment and to gain access to foreign markets. Oil-exporting states, we argue, find it relatively easy to achieve these aims without making costly commitments to international institutions. In other words, natural resource wealth liberates states from the economic pressures that would otherwise drive them toward cooperation.

Oil-exporting states puzzle scholars of international cooperation. These states are highly integrated into the global economy. Thus, their reliance on trade, international finance, and foreign workers should give their governments a major stake in the health of global markets and the international institutions that facilitate the transnational flow of goods and finance.<sup>1</sup>

Yet oil exporters are often at odds with international norms and institutions. Some oil exporters, such as Angola, Equatorial Guinea, Oman, and Turkmenistan, choose to remain politically isolated despite their dependence on foreign trade and finance. Other exporters, such as Russia, Iran, Venezuela, and until recently, Iraq and Libya, actively defy global norms, invade neighboring countries, expropriate foreign investors, flout human rights, and finance terrorism and armed rebellions in foreign countries.

We argue that the more a country depends on oil exports, the less engaged it is in institutionalized cooperation. These findings are robust to controls for potentially confounding variables, to the inclusion of fixed country and year effects, to alternative measures of both oil exports and international cooperation, and to the exclusion of all states in the Middle East from the dataset.

To explain this pattern, we contend that oil wealth weakens two economic incentives that normally compel states to participate in international institutions: the need to attract foreign direct investment (FDI) and the need to gain access to foreign markets. Oil exporters benefit from unusually easy access to both FDI and foreign markets, which leaves them with fewer reasons to make costly commitments to international institutions.

We assume that states participate in international institutions when they believe the benefits will outweigh the costs. Since oil exporters accrue fewer benefits, they are only likely to join organizations that carry minimal obligations and, hence, have low sovereignty costs. Even if they opt out of broader institutions, they may still join international organizations that carry no binding commitments. For example, twelve of the world's thirty-seven net oil exporters are members of the Organization of Petroleum Exporting Countries (OPEC), a small, highly specialized organization that sets nominal export quotas for its members. Yet, OPEC entails surprisingly low sovereignty costs: it rarely enforces its export quotas, which hence have no measurable impact on the actual exports of its members (Colgan 2014).

Our argument may help explain the uncooperative policies of states like Russia, Iran, Venezuela, and pre-invasion Iraq and Libya. It also casts light on the economic roots of international cooperation. Recent studies focus on the *political* determinants of participation in international institutions, suggesting that when countries are more liberal or democratic, or undergoing transitions to democracy, they become more likely to join intergovernmental organizations (IGOS) (Mansfield and Pevehouse 2006), accede to international courts (Kelley 2007; Moravcsik 2000), accept legalized dispute resolution (Mitchell 2002), engage in deeper regional integration (Mansfield, Milner, and Pevehouse 2008), participate in United Nations (UN) Peacekeeping Operations (Lebovic 2004), and otherwise cooperate through international institutions (Martin 2000; Milner 1997).

Our analysis confirms these findings. We show that democracy and democratization are consistently associated with greater cooperation. We also find, however, that the substantive effect of being an oil exporter is similar to or greater than the effect of being a democracy. It also affects a large number of countries. In 2010, twenty-seven states—from all world regions—depended on petroleum for at least 50 percent of their exports.

Michael Ross (mlross@polisci.ucla.edu) is a Professor at the Department of Political Science, UCLA.

Erik Voeten (ev42@georgetown.edu) is the Peter F. Krogh Associate Professor of Geopolitics and Justice in World Affairs at Georgetown University.

<sup>1</sup>We use the terms oil, petroleum, and fuels to refer to both oil and natural gas.

Our analysis also helps clarify the relationship between trade and the demand for international institutions. Recent empirical studies on the determinants of joining IGOs (see Mansfield and Pevehouse 2006, 2008) typically find no evidence to support the venerable claim that economic interdependence leads to international cooperation (see, for example, Haas 1964; Keohane and Nye 1977). We suspect that this lack of support derives from the failure of scholars to distinguish between the trade in petroleum and the trade in other goods. Our analysis finds that when we distinguish oil exports from other types of exports, it turns out that the former correlates with *less* cooperation while the latter correlates with *more* cooperation.

A close reading of one of the seminal books on international cooperation already hints at our insight. Keohane and Nye (1977, 9) distinguished between a country's *interconnectedness* with other states, which results from trade of all types, and its *interdependence*, which is a function of a country's reliance on commodities for which demand is highly inelastic. They suggest that institutionalized cooperation is *not* produced by mere interconnectedness, but instead by interdependence:

A country that imports all of its oil is likely to be more dependent on the continuing flow of petroleum than a country importing furs, jewelry, and perfume (even of equivalent monetary value) will be on uninterrupted access to these luxury goods. Where there are reciprocal (although not necessarily symmetrical) costly effects of transactions, there is interdependence. Where interactions do not have significant costly effects, there is simply interconnectedness. (Keohane and Nye 1977, 9)

Hence a country “that imports all of its oil” should experience more interdependence and thus be inclined towards institutionalized cooperation. At the same time, an oil-exporting country that only imports luxury goods (such as “furs, jewelry, and perfume”) should have a lower level of interdependence and be less likely to favor cooperative institutions. If Keohane and Nye are correct, oil-importing countries should be more likely than oil-exporting states to support institutionalized cooperation.

To our knowledge, no one has directly tested this idea. Some scholars comment on the apparent detrimental effect of oil exports on different types of cooperation. Most, however, focus on regional cooperation. For example, Moses and Jenssen (1998) and Mattli (1999) both argue that Norway's oil wealth helps explain why it remained out of the European Union (EU); Hoekman and Messerlin (2002) claim that Arab countries have made little progress toward regional integration, partly because of their oil wealth; and Stubbs (2000) argues that falling oil prices led petroleum-rich Indonesia to seek deeper cooperation with the Association of South East Asian Nations (ASEAN). A model developed by Venables (2011) shows that regional integration will be unattractive for resource-rich countries because they already have easy access to foreign markets and, hence, little incentive to remove import barriers. Davis and Wilf's (2011) analysis of membership in the World Trade Organization (WTO) notes in passing that oil exporters are less likely to apply.

This article is the first to demonstrate that oil exports have a broad, negative association with institutionalized cooperation. It discusses two mechanisms that can explain this pattern and presents evidence that is consistent with them. Testing these claims proves difficult with currently

available data. Hence, we regard our analysis of these mechanisms only as suggestive.

Our main independent variable is a country's oil and gas exports as a fraction of its total exports (hereafter *Oil Exports*). Our key dependent variable is the decision by states to join IGOs, which is the best-studied measure of institutionalized cooperation. We employ an updated measure of IGO membership developed by Boehmer, Gartzke, and Nordstrom (2004) that divides IGOs into three categories based on the magnitude of their sovereignty costs. This allows us to evaluate our claim that oil exporters may still participate in low-cost institutions even if they shun medium- or high-cost institutions. To make sure that our findings are not sensitive to the way we code this indicator, we replicate our models using two alternative measures of cooperation: Voeten's (2012) Commitment to International Jurisdiction (CIJ) Index, which gauges a country's commitments to legally binding adjudicatory bodies, and the KOF index of political globalization, which represents the number of international organizations a country has joined, the international treaties they have signed, UN Security Council Missions they participate in, and the foreign embassies they host (Dreher 2006). In our exploration of causal mechanisms, we show that *Oil Exports* is negatively correlated with Allee and Peinhardt's (2010) measure of Bilateral Investment Treaties (BITs) that bind states, or bind their trade partners, to third-party dispute resolution.

In the next section, we explain why oil exports should theoretically be linked to reduced cooperation. To illustrate our arguments, we discuss the cases of Venezuela, Sudan, and Norway. In the second section, we describe our regression analysis, and in the third section, we provide evidence that the oil-cooperation relationship can be explained by our two economic mechanisms and not by an alternative mechanism—the paucity of democracy in the oil-rich states. We conclude in the final section.

### How Does Oil Affect Cooperation?

International relations scholars have long sought to understand how the growth of economic interdependence since World War II might be connected to institutionalized cooperation between states. Many argue that when states seek to attract FDI and gain access to foreign markets, they gain an incentive to make costly commitments to international institutions (Haas 1964; Keohane 1982; Ruggie 1982; Haggard and Simmons 1987). These institutions can facilitate the harmonization of regulations, coordinate the removal of trade barriers, monitor the behavior of member states, deter cheating, provide for third-party dispute resolution, and more generally reduce transaction costs, thus helping states realize gains from trade and attract FDI (Keohane 1982, 1984). Yet, joining these institutions also entails costs, because it compels states to make policy compromises or relinquish a portion of their sovereignty.

Countries with substantial petroleum wealth might lack these motives: if they find it atypically easy to gain both FDI and market access, participation will bring them fewer benefits. The higher the sovereignty costs of institutionalized cooperation, the less likely these benefits will outweigh their costly commitments.

#### *Easy foreign investment*

The fear of expropriation inhibits foreign direct investment. Once a firm makes a highly specific investment in a foreign

country, the host government will be tempted to change the terms of the investment to gain a greater share of the profit (Vernon 1971, 46; Jensen 2008, 46–50). Expropriations have become less frequent in recent decades, but foreign investors still face the more-subtle danger that host governments will use “changes in regulation, taxation, tariffs and fees, or selective law enforcement” to reduce the investment’s profitability (Büthe and Milner 2008, 744).

Governments are better able to attract FDI if they can credibly assure investors that their property rights will be protected. One way to do this is by harmonizing regulations through international regimes. Another is by participating in broad-based institutions that create linkages between the protections they offer to foreign investors and the benefits they accrue in other domains. A third strategy is to join organizations and sign agreements that include commitments to binding arbitration by neutral third parties in the event of disputes with foreign investors. The more that governments demonstrate their willingness to be bound by international adjudicatory bodies, the lower the perceived risk for foreign investors.

Several statistical studies offer support for this argument by demonstrating that foreign direct investment is boosted in countries that sign bilateral investment treaties (Busse, Königer, and Nunnenkamp 2010; Tobin and Rose-Ackerman 2011), that participate in a variety of trade agreements (Berger et al. 2012; Büthe and Milner 2008, 2014), or that join a broad range of institutions (Dreher, Mikosch, and Voigt 2014). This argument should not hold, however, for states that can attract investors without making costly commitments. There are three reasons why oil-exporting states might fall into this category (Hogan and Sturzenegger 2010).

The first is oil’s strategic importance, which can make overseas investors—many of them implicitly or explicitly backed by oil-importing governments—willing to invest in risky petroleum ventures to gain more secure access to energy supplies. For example, in the first decade of the 2000s, Sudan looked like an unattractive destination for FDI: the government was fighting an insurgency in the country’s south and was implicated in massacres in the Darfur region. In 2004 and 2005, the UN Security Council imposed sanctions on Sudan, which included a ban on weapons sales, a freeze on the assets of key officials, and a travel ban. The United States first imposed economic, financial, and trade sanctions on Sudan in 1997, and these were tightened in 2007. Yet, from 2000 to 2009, Sudan received large investments in its petroleum sector from state-owned companies in China (China National Petroleum Company), India (Oil and Natural Gas Corporation *Videsh*), and Malaysia (Petronas) (Yager 2010, 38). These investments helped the country triple its oil production.

A second explanation may be the exceptional profitability of many petroleum-sector investments. Jensen and Johnston (2011) developed and tested a model in which investors weighed the expected risks of expropriation against the expected benefits from FDI. Because the expected benefits of extracting resource wealth are unusually high, investors were willing to accept higher expropriation risks.

The expectation of supranormal profits could help explain the behavior of investors in Venezuela. During the 1999–2013 presidency of Hugo Chavez, Venezuela proved to be a challenging environment for foreign investors. From 2004 to 2011, for instance, the government

expropriated 1,087 private companies.<sup>2</sup> These included major oil companies owned by ExxonMobil and ConocoPhillips, both of which sought arbitration after Venezuela offered them compensation that they deemed inadequate. After an international arbitration panel ruled in favor of ExxonMobil, the Venezuelan government vowed it would not abide by the ruling; it later abandoned the World Bank’s dispute resolution body altogether.<sup>3</sup> Yet, Venezuela continued to enjoy new FDI in petroleum throughout the Chavez years. In 2011, for example, it received major new petroleum investments from both state-backed firms and private companies (Gurmendi 2011), perhaps because firms believed that the chance for exceptional profits would justify the exceptional risk.

Finally, oil-exporting countries seem to have little need for FDI in their non-oil sectors, due to both the Dutch Disease and the availability of domestic investment. The Dutch Disease occurs when a country’s natural resource exports boom. This tends to drive up real wages and exchange rates, which makes its other tradable goods too costly to compete in global markets (Corden and Neary 1982; Neary and van Wijnbergen 1986). The more oil a country exports, the less able it is to profitably export other kinds of goods. Harding and Venables (2013, 2), for example, find that for each additional dollar of resource revenues, countries tend to see a decrease of seventy-five cents in nonresource exports.<sup>4</sup>

This implies that as long as oil production is sufficiently high and profitable, there is little reason for oil-rich states to seek FDI in other sectors. To the extent that they need investments in their non-oil economy, they can use their repatriated oil revenues because most oil-rich states have difficulty absorbing these revenues domestically, and they often accumulate large sovereign wealth funds. Moreover, increased access to revenues is rewarded in sovereign debt markets, thus providing an alternative route to attract capital without the need to reassure investors about expropriation (Wellhausen 2015).

Collectively, these three factors—the strategic motives of foreign investors, the oil sector’s high profitability, and the diminished need for non-oil finance—could leave oil-rich countries with a much-reduced incentive to make costly commitments to attract FDI.

#### *Easy access to foreign markets*

When states seek to boost their exports they gain an incentive to participate in international regimes, which can facilitate the removal of tariff and nontariff barriers, promote issue linkage, and establish common standards that foster the transboundary flow of goods, money, information, and people. The literature broadly recognizes the link between export incentives and institutionalization (e.g., Moravcsik 1998; Ingram, Robinson, and Busch 2005; Davis 2004), even if quantitative studies do not always find correlations between trade dependence and membership in international organizations (Mansfield and Pevehouse 2006, 2008).

<sup>2</sup>“Venezuelan government seizes 1,087 companies in seven years,” *El Universal*, December 9, 2011.

<sup>3</sup>“Venezuela Vows to Reject Arbitration in Exxon Case,” *New York Times*, January 8, 2012. Petroleum-exporting Bolivia and Ecuador also withdrew from the International Centre for the Settlement of Investment Disputes (ICSID) over similar disputes. The relationship between oil exports and reliance on ICSID is examined more systematically subsequently in this article.

<sup>4</sup>Also see Magud and Sosa’s (2010) meta-analysis of research on the Dutch Disease.

Oil-exporting countries are generally able to gain access to foreign markets without granting reciprocal access to their trade partners, giving them less incentive to make costly commitments to broader trade regimes. This reflects the unusually low elasticity of petroleum demand. Countries need an uninterrupted flow of oil and gas to fuel their ground, air, and maritime transportation; there are no ready substitutes for these fuels; and it is difficult to stockpile them in large quantities. As a result, oil-importing states are unusually eager to avoid disruptions in their petroleum supplies.<sup>5</sup> As Keohane and Nye (1977, 9) observe, this creates an asymmetrical interdependence between oil importers and oil exporters: the former are more dependent on the latter than the reverse.

To obtain a steady supply of petroleum at the lowest possible cost, most states import it with few restrictions. The WTO compiles data on import restrictions around the world by product group, and it reports that petroleum is the product group most frequently imported duty free (WTO 2011).<sup>6</sup> This makes it hard for oil-importing states to bargain for reciprocal access to the domestic markets of their oil suppliers. It also allows oil-rich countries to enjoy access to foreign markets while protecting their own markets from foreign competition.

Consider the case of Norway. At first glance, Norway seems to defy our theory: although a major oil producer, it is well known for its active diplomacy and foreign aid programs. Yet, unlike other Western European states, it never committed itself to the European political integration project. While the Norwegian government applied for membership to the European Community in 1967, Norwegian voters rejected membership in 1972, the year after Norway began to extract North Sea oil. Following a decade of low oil prices, the Norwegian government applied for membership a second time in 1992. But, by the time this second referendum was held in 1994, new offshore oil fields had come into production, boosting exports to record levels and leading to a surge in gross domestic product (GDP) growth; once again, Norwegian voters rejected the referendum.

According to Moses and Jenssen (1998, 221), the reluctance of Norwegians to participate in the EU reflects the ease with which they can export their oil:

Thus, while the Norwegian economy is most dependent on European markets as receptors for its imports, the specific nature of its export economy makes it less susceptible to economic blackmail. The importance of oil and petroleum imports to the European economies makes it highly unlikely that they will close off their markets to Norwegian exports. Because of this, Norwegian voters may have decided against membership despite its export dependence on Europe.

According to Venables (2011), who uses a two-country model to illustrate this effect, although a resource-poor country would gain from signing a trade agreement with a

<sup>5</sup>These qualities also make the uninterrupted flow of petroleum more important—both economically and politically—than the uninterrupted flow of others types of minerals, which are used for less-essential purposes and can typically be stockpiled.

<sup>6</sup>See supplementary files. The only group of countries to place significant restrictions on petroleum imports are the oil producers themselves, who guard their oil industries from competition.

resource-rich country, the resource-rich country—which already faces low export barriers in global markets—would not. This implies that resource-rich countries will shun trade agreements and, more broadly, regional integration.

But should not oil-rich states still benefit from lower trade barriers, which would help them boost their non-oil exports? Maybe, but not very much. The Dutch Disease creates a structural barrier to export diversification. This means that oil-exporting countries have little to gain from broad international regimes that facilitate across-the-board reductions in tariffs. The only good they can profitably export—petroleum—already enjoys unfettered access to foreign markets, while their other tradable goods are too expensive to gain a foothold in these same markets. The Dutch Disease also creates a second problem. The heightened value of the currency makes imported goods cheaper, which gives business and labor groups outside the oil sector a strong incentive to support protectionist trade policies.

The case of Venezuela again provides a helpful illustration. In the late 1950s, talks began to form a Latin American Free Trade Association (LAFTA).<sup>7</sup> Venezuela adopted the position—which it repeated many times in subsequent negotiations—that it could not take part without a guarantee of protection for its high-cost manufacturing sector. When Venezuela finally ratified a much-watered-down LAFTA treaty in 1966, it stipulated that it would continue to protect its nonfuel industries, because they could not compete with similar industries in other LAFTA members.

In the late 1960s, Venezuela raised similar objections to the effort to form an Andean Common Market (later known as the Andean Community), which was designed to have stronger enforcement mechanisms than LAFTA. Domestically, Venezuelan economic interests were split with the government and the state-owned oil company favoring integration, but the private sector (represented by the Federation of Chambers and Associations of Trade and Production [FEDECAMARAS], the country's most important business association) strongly opposing it. Frustrated with Venezuela's recalcitrance, the other countries (Bolivia, Chile, Colombia, Ecuador, and Peru) signed an initial accord in 1969. Finally, Venezuela's belief that it would soon run out of oil (which turned out to be mistaken) and an agreement by other members to grant Venezuela's domestic industry's special protections, led Venezuela to join the Andean Common Market in 1973.

Over the next three decades, Venezuela adopted a paradoxical stance toward regional integration: it continued to participate in the Andean Community and the Latin America Integration Association (the successor to LAFTA), yet it found ways to protect its manufacturing and agricultural sectors. Its import-weighted tariff average was 40 to 50 percent higher than the average for Latin America, and its nontariff barriers were unusually steep (World Bank 2008, 1–2; WTO 2002, 8). In the World Bank's 2010 ranking of countries by their facilitation of free trade, Venezuela ranked 172 out of 183 states. Among the 32 countries in Latin America and the Caribbean, Venezuela ranked 32.<sup>8</sup>

Similarly, petroleum-exporting Indonesia long had the least-open economy in ASEAN and was hostile towards intra-ASEAN trade liberalization. So was oil-exporting Malaysia. Thanks in part to their indifference, a series of

<sup>7</sup>The account of Venezuela's trade positions in the 1960s and 1970s is based on Avery (1976).

<sup>8</sup>See [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings) (accessed August 15, 2011).

intra-ASEAN trade initiatives (including the ASEAN Industrial Project [AIP], ASEAN Industrial Complementation [AIC] and the ASEAN Industrial Joint Venture) all foundered. But the tumble in world oil prices in the late 1980s and early 1990s led both governments to reassess their policies toward trade, foreign investment, and regional integration (Basri and Hill 2004, 633–34). Faced with a need to both increase nonpetroleum exports and attract FDI, the Indonesian and Malaysian governments began to favor regional trade integration, leading to a 1992 agreement to establish the ASEAN Free Trade Area, which became known as AFTA (Stubbs 2000).

Similarly, in Mexico, free trade long was “the policy option that dare not speak its name” (Golob 2003, 370). Yet, falling oil prices and increasing interest rates created a desperate need for revenue in the early 1980s. Between 1985 and 1999, Mexico joined the General Agreement on Trade and Tariffs (GATT), North Atlantic Free Trade Agreement (NAFTA), the WTO, the Organization for Economic Cooperation and Development (OECD), and signed over twenty regional and bilateral economic integration agreements as part of an explicit strategy to diversify exports (Gallagher 2004, 8; Waithe, Lorde, and Francis 2011). In that period, Mexican oil exports dropped from 80 percent to 10 percent of total exports. Thus, drops in oil income may make international institutions more appealing to countries that previously resisted greater integration.

Many studies suggest that countries have at least two economic motives for participating in international institutions: to increase FDI and to improve access to foreign markets.<sup>9</sup> Oil wealth helps countries achieve these goals even without institutionalized cooperation.

### Regression Analysis

If our theory is correct, a country’s petroleum exports should be negatively correlated with institutionalized cooperation, and its nonfuel exports should be positively correlated with institutionalized cooperation. Our theory also implies two nuances in the oil-cooperation relationship. First, petroleum should only matter when exports are large enough to begin triggering the Dutch Disease and crowding out nonresource exports. Countries that only produce small amounts of oil for domestic use should still have diversified export portfolios, and hence still benefit from institutionalized cooperation to gain FDI and foreign access for their non-oil exports. Second, oil exporters should be more inclined to reject institutions with high sovereignty costs. We assume countries participate in international institutions when the benefits outweigh the costs. Because oil exporters receive fewer benefits, they should only join institutions whose sovereignty costs are commensurately low. The higher the sovereignty costs, the less likely that oil-rich states will join.

The narrowest version of our argument implies that petroleum exports should diminish participation in institutions designed to foster investment or trade. A broader interpretation—one that reflects a functionalist perspective in which cooperation on economic issues leads to cooperation on noneconomic issues—suggests that oil exports will

inhibit cooperation in a wider range of domains. We treat this as an issue to be resolved by empirical analysis.

### Independent variable

We argue that a country’s oil exports, rather than its overall oil production, inhibits cooperation. Moreover, the more petroleum exports dominate a country’s trade relationships, the larger the effect on cooperation. Hence, our main independent variable is *Oil Exports*, defined as the value of a country’s net oil and gas exports as a fraction of its total exports. For countries like Singapore that do not produce oil or gas domestically but are merely trans-shipment points, *Oil Exports* are set at zero.<sup>10</sup>

This measure could be partly endogenous to some of the outcomes we are estimating.<sup>11</sup> To mitigate this concern, we replicate our estimations using two alternative measures of oil wealth. The first is a dummy variable for major oil exporters. It takes the value one if oil exports make up at least 50 percent of its total exports in a given year. As a dichotomous variable, it is relatively insensitive to short-term endogenous production decisions.<sup>12</sup>

The second is a country’s oil income per capita, which is the monetary value of a country’s oil and gas production in constant 2000 dollars divided by its midyear population. To mitigate the skewed distribution of values and reduce the influence of outliers, we use the natural log of oil income (plus one) in our estimations. By focusing on domestic oil production instead of oil exports, and normalizing it by population instead of by total exports, we remove two possible sources of endogeneity. The oil income measures are drawn from Ross (2011).

### Dependent variables

Our key dependent variable is an updated measure of membership in IGOs developed by Boehmer, Gartzke, and Nordstrom (2004) and updated by Ingram, Robinson, and Busch (2005), which divides IGOs into three categories based on their sovereignty costs: “minimalist” IGOs that either exist only on paper, or have a minimal organizational structure and cannot compel member states to take action; “structured” IGOs that have codified procedures, well-specified mechanisms for appointing or electing officials, manage programs that produce concrete benefits, and can make decisions that are binding on member states; and “interventionist” IGOs, like the EU or the Arab League, that have “clear mechanisms for coercing or influencing state behavior” (Boehmer, Gartzke, and Nordstrom 2004, 37–38). If our argument is correct, oil exports should be negatively correlated with membership in structuralist and interventionist IGOs, but we have no strong expectations about their

<sup>10</sup>The data comes from the World Development Indicators (World Bank 2012). Missing values were imputed (using regression analysis) with data from the US Energy Information Administration. If both sources had missing data, the values were left missing.

<sup>11</sup>A country’s oil exports represent the difference between its domestic production and domestic consumption; the latter reflects the overall size and health of the economy. Other things being equal, oil-endowed poor countries export more oil than similarly endowed rich countries because rich countries consume more of their oil domestically. If the government of an oil-endowed country is less willing to guarantee the property rights of foreign investors (one of our outcomes), and this hurts the non-oil sector more than the oil sector (as our theory suggests), it could make a country more dependent on its oil exports even if oil production is unaffected.

<sup>12</sup>Although the 50 percent threshold is arbitrary, we believe countries that pass it are likely to be experiencing Dutch Disease effects.

<sup>9</sup>These two motives may be intertwined: one recent study, using a survey of firms that excluded the natural-resource sector, found that being a signatory to international economic treaties attracts FDI precisely because it enables the investing companies to take advantage of lower trade barriers with the home country (Kenyon and Margalit 2014, 3).

participation in minimalist IGOs. For convenience, we combine the measures of structured and interventionist IGOs into the single measure *Costly IGOs*.<sup>13</sup>

We also test our claims with two alternative measures of cooperation. The first is the KOF index of political globalization, which represents the number of international organizations a country has joined, the international treaties they have signed, the UN Security Council Missions they participate in, and the foreign embassies they host (Dreher 2006).

The other is the CIJ Index, which measures the degree to which states accept treaty provisions that give international judicial bodies greater authority. It is based on three equally weighted subindices: commitments to general international law, commitments to economic law, and commitments to human rights and security. The scale runs from 0 (no acceptance of compulsory jurisdiction) to 100 (full acceptance of available international judicial authorities) (Voeten 2012).<sup>14</sup> We limit all analyses to the 1970–2006 period for data availability reasons (2005 when IGOs are the dependent variables). Table 1 shows the descriptive statistics for all variables.

As a robustness test, we also replicate a recent study by Donno, Metzger, and Russett (2015) that takes dyadic pairs of states and IGOs as the unit of analysis, and we add our *Oil Exports* measure to their model; we describe the main results in the text and provide the full results in the supplementary materials.

In the final section of the analysis, when we examine causal mechanisms, we also consider whether *Oil Exports* are associated with BITs that bind them, or bind their trade partners, to third-party dispute resolution.

### Regression Analysis

We begin by considering the association between *Oil Exports* and our dependent variables in a simple Ordinary Least Squares (OLS) regression framework, including both country and year fixed effects.<sup>15</sup> Table 2 estimates the relationships between *Oil Exports* and each of the dependent variables, adding no controls beyond the country and year fixed effects. While *Oil Exports* is not significantly associated with membership in minimalist IGOs (model 1), it is strongly associated with the three measures of more-costly cooperation: *Costly IGOs* (model 2), *Political Globalization* (model 3), and *CIJ* (model 4).

Table 3 displays a series of robustness tests, keeping *Costly IGOs* as the dependent variable. We control for four familiar correlates of IGO membership: income per capita, because we expect wealthier states to more frequently join IGOs; *Polity*, a 21-point measure of political regime characteristics (Marshall and Jaggers 2011), to account for the well-documented effects of democracy on IGO membership; the natural log of population and population squared, because we expect larger countries to be more cooperative; and for a country's overall trade dependence

<sup>13</sup>*Oil Exports* has the same relationship with each measure under all of the conditions we examine, so combining them does not affect our results.

<sup>14</sup>The measure takes into account partial commitments through nonratification of optional clauses and reservations. For example, a state's commitment to the International Court of Justice is measured by whether it accepts its compulsory jurisdiction with subtractions for reservations that limit the court's spatial, temporal, or geographical jurisdiction (Mitchell and Powell 2009). Moreover, states score higher when they ratify more treaties that accept the International Court of Justice's jurisdiction via compromissory clauses. For further details, see the supplementary materials and Voeten (2012).

<sup>15</sup>All of our regression results are robust to the use of random rather than fixed effects.

Table 1. Descriptive statistics

Variable	N	Mean	sd	Min	Max
Minimal IGOs	5941	19.23	11.50	0.00	60.00
Costly IGOs	5941	30.71	10.78	0.00	68.00
Pol glob	6129	48.83	23.68	1.55	98.26
CIJ index	5838	26.74	19.33	0.00	92.19
Oil exports	4080	0.13	0.28	0.00	1.00
Major oil exporter	4080	0.12	0.33	0	1
Oil income (ln)	5509	2.39	2.91	0	11.15
Oil exports per capita (ln)	4077	1.41	2.60	0	10.19
Nonoil exports per capita (ln)	4077	5.71	1.88	0	10.89
GDP per capita (ln)	5497	7.87	1.59	3.91	11.75
Merchandise trade/GDP (%)	5285	57.06	51.15	-88.56	986.65
Population (ln)	6853	15.19	2.15	8.90	20.99
Polity	5035	0.41	7.62	-10	10
Democracy	6000	0.44	0.50	0	1

Note: CIJ, Commitment to International Jurisdiction; GDP, gross domestic product; IGOs, intergovernmental organizations.

Table 2. International cooperation and oil exports (fixed year and country effects)

Variables	(1) Minimal IGOs	(2) Costly IGOs	(3) Pol Glob	(4) CIJ Index
Oil Exports	-0.02 (0.44)	-0.91*** (0.34)	-6.27*** (1.12)	-7.34*** (1.28)
Constant	12.30*** (0.28)	22.38*** (0.22)	41.26*** (0.78)	13.80*** (0.84)
Observations	3,930	3,930	4,744	4,093
R-squared	0.79	0.90	0.64	0.76
Number of countries	176	176	177	176

Note: Standard errors in parentheses. CIJ, Commitment to International Jurisdiction; IGOs, intergovernmental organizations.

\* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .01$ .

(exports plus imports divided by GDP), because we are claiming that oil-exporting states are politically uncooperative given their integration with the global economy. All right-hand side variables are lagged by one year.

Model 5 shows that including these covariates has little effect on the size and significance of the *Oil Exports* coefficient. The substantive size of the effect is comparable to that of democracy, which is the factor most frequently highlighted in the literature on international organizations. In the fixed effects specification, a one standard deviation increase in *Polity* is associated with a 0.25 average increase and a one standard deviation increase in *Oil Exports* with a 0.28 decrease in *Costly IGOs*.

To see if our results are driven by the oil-rich states of the Middle East, in model 6 we exclude the region's fifteen states from the sample; this causes the absolute value of the *Oil Exports* coefficient to rise, suggesting the cooperation-inhibiting effects of petroleum are not tied to the Middle East region.<sup>16</sup>

In models 7 and 8, we replace *Oil Exports* with alternative measures: our *Major Oil Exporters* dummy variable (model 7) and *Oil Income* (model 8), both of which should be less affected by endogeneity. In both models, the oil variable remains negatively associated with *Costly IGOs*. Consistent with our expectations, the effects of *Oil Income* are quadratic: the domestic production of small amounts

<sup>16</sup>Because we include country fixed effects in our model, we cannot add regional dummies.

**Table 3.** Oil wealth and joining costly IGOs, regressions with fixed country and year fixed effects

Variables	(5)	(6) (w/o Middle East)	(7) Dummy exporter variable	(8) Oil income
Oil exports	-0.88** (0.35)	-1.28*** (0.47)		
Major oil exporter			-0.95*** (0.21)	
Oil income				0.40*** (0.09)
Oil income squared				-0.05*** (0.01)
Trade/GDP	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.00 (0.00)
GDP per capita	0.37* (0.20)	0.71*** (0.21)	0.40** (0.20)	1.07*** (0.16)
Polity	0.03*** (0.01)	0.01 (0.01)	0.03*** (0.01)	0.01 (0.01)
Population	-3.99** (1.81)	-3.73* (2.14)	-3.79** (1.80)	-2.66 (1.63)
Population squared	0.03 (0.06)	0.07 (0.07)	0.02 (0.06)	0.01 (0.05)
Constant	77.02*** (15.48)	61.33*** (18.32)	74.85*** (15.46)	52.24*** (13.42)
Observations	3,285	2,772	3,285	4,245
R-squared	0.92	0.92	0.92	0.89
Number of countries	144	123	144	152

Note: Standard errors in parentheses. GDP, gross domestic product; IGOs, intergovernmental organizations. \* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .01$ .

of petroleum (below about \$100 per capita, which in most cases is too little to export) appears to have no cooperation-reducing effects.<sup>17</sup> Oil wealth only seems to inhibit IGO membership when it is abundant enough to export.

Table 4 evaluates the substantive importance of oil exports by comparing it to the impact of democracy, which has been well explored in earlier studies (e.g., Mansfield, Milner, and Pevehouse 2008). To simplify, we compare our dichotomous measure, *Major Oil Exporter*, to the dichotomous measure of democracy coded by Cheibub, Gandhi, and Vreeland (2010). Given that this is a fixed effects model with dichotomous independent variables, this is a difference-in-difference estimator. Across each of the four cooperation measures, the impact of being a major oil exporter is more than twice as large as the impact of being a democracy. In this specification, *Major Oil Exporter* is also associated with reduced participation in minimal IGOs, but this effect is not consistent across the specifications we estimated (see also Table 2). Note that the economic variables have no consistent effect on any of the outcomes, which is in keeping with other studies of IGO membership.

Table 5 employs a dynamic model to evaluate our claim that fuel exports have a negative effect, and nonfuel exports have a positive effect, on institutionalized cooperation. We employ a single equation error-correction model, which is widely used in political science to analyze both cointegrated and stationary time-series data (e.g., Beck 2001).<sup>18</sup> The outcome is the change in each of our dependent variables, and the models include lagged levels of the dependent variable and changes and lags in the independent variables. The coefficients on the changes in the independent variables imply immediate effects while the coefficients on the lagged terms capture

**Table 4.** Democracy, oil exporter status, and international cooperation (fixed country and year effects)

Variables	(9) Minimal IGOs	(10) Costly IGOs	(11) CIJ index	(12) Pol Glob
Major oil exporter	-0.79*** (0.28)	-0.92*** (0.21)	-3.76*** (0.79)	-3.11*** (0.71)
Democracy	0.01 (0.16)	0.36*** (0.12)	1.62*** (0.45)	1.54*** (0.41)
Trade/GDP	0.01*** (0.00)	-0.01*** (0.00)	0.04*** (0.00)	0.00 (0.00)
GDP per capita	-0.76*** (0.25)	0.29 (0.19)	-2.76*** (0.70)	7.93*** (0.61)
Population	9.63*** (2.26)	-1.35 (1.70)	41.95*** (6.33)	-0.64 (5.34)
Population squared	-0.28*** (0.07)	-0.07 (0.05)	-1.89*** (0.19)	0.72*** (0.17)
Constant	-62.44*** (19.36)	57.80*** (14.53)	-159.24*** (54.12)	-181.61*** (45.56)
Observations	3,604	3,604	3,765	4,212
R-squared	0.81	0.92	0.80	0.66
Number of countries	168	168	169	169

Note: Standard errors in parentheses. CIJ, Commitment to International Jurisdiction; GDP, gross domestic product; IGOs, intergovernmental organizations. \* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .01$ .

**Table 5.** Change in international cooperation by fuel and nonfuel exports (with country fixed effects)

Variables	(13) D. Minimal IGOs	(14) D. Costly IGOs	(15) D. Pol Glob	(16) D. CIJ index
Lagged DV	-0.02*** (0.00)	-0.04*** (0.00)	-0.07*** (0.01)	-0.01*** (0.00)
L. Fuel exports per capita	0.02 (0.01)	-0.02** (0.01)	-0.08** (0.03)	-0.00 (0.03)
D. Fuel exports per capita	-0.05 (0.04)	-0.02 (0.04)	-0.11 (0.08)	-0.03 (0.07)
L. Nonfuel exports per capita	0.04 (0.02)	0.01 (0.02)	0.11 (0.07)	0.14* (0.07)
D. Nonfuel exports per capita	0.09 (0.08)	0.36*** (0.09)	0.09 (0.31)	0.62*** (0.28)
L. GDP per capita	-0.00 (0.03)	0.05 (0.03)	0.19* (0.11)	-0.11 (0.09)
D. GDP per capita	-0.55 (0.52)	-0.25 (0.38)	-2.33* (1.26)	1.63 (1.09)
L. Democracy	0.07 (0.05)	0.20*** (0.05)	0.11 (0.15)	0.41*** (0.15)
D. Democracy	0.20* (0.11)	0.10 (0.09)	-0.21 (0.69)	0.27 (0.29)
L. Population	0.08*** (0.01)	0.04*** (0.02)	0.50*** (0.07)	-0.00 (0.04)
D. Population	-5.51*** (1.73)	-5.01*** (1.67)	-2.49 (8.47)	-16.08*** (4.83)
Constant	-0.39 (0.28)	0.68** (0.30)	-6.85*** (1.29)	1.81** (0.77)
Observations	3,566	3,566	3,946	3,723
Number of countries	168	168	169	168

Note: Standard errors in parentheses. Trinomial time trend and Cold War dummy omitted from table. CIJ, Commitment to International Jurisdiction; GDP, gross domestic product; IGOs, intergovernmental organizations; L, lagged; D, difference; DV, dependent variable. \* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .01$ .



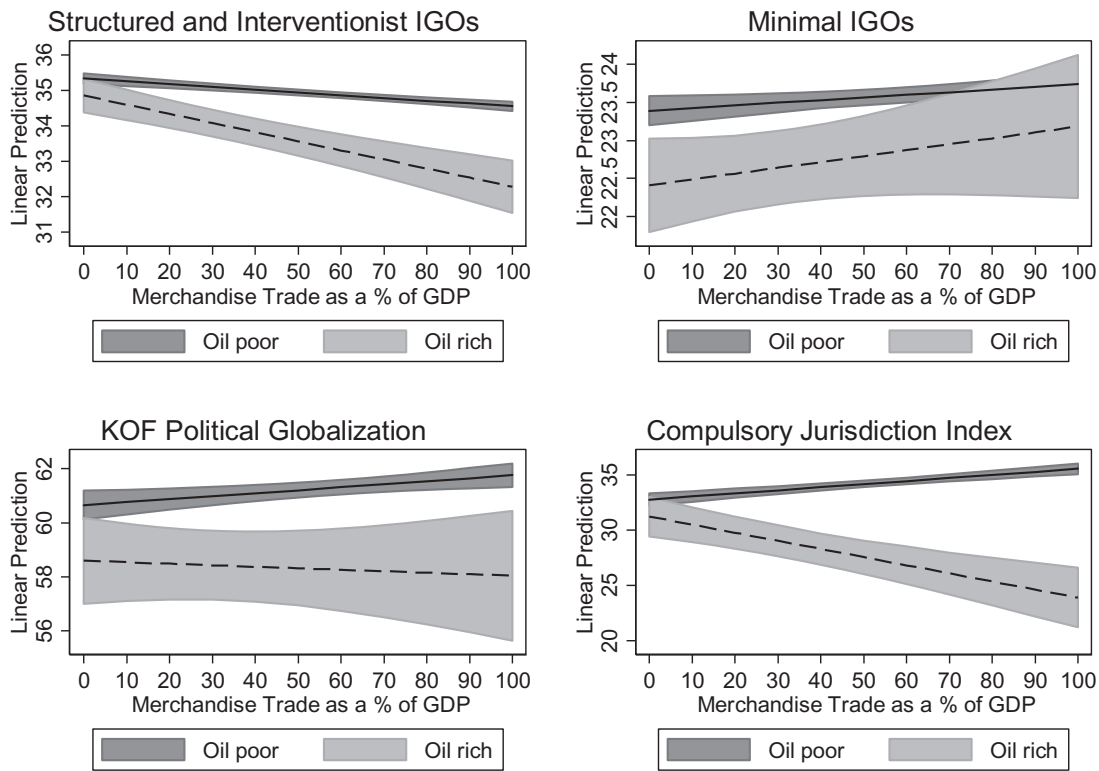


Figure 1. Oil exporter status and international cooperation by trade dependence.

longer-term equilibrium effects. We include *Fuel* and *Nonfuel Exports per capita* to distinguish the effects of different sources of exports.<sup>19</sup> The remaining control variables are the same as those found in the earlier regressions.

In model 13, where the outcome is change in *Minimal IGOs*, neither *Fuel Exports* nor *Nonfuel Exports* has a significant effect. When the outcome is change in *Costly IGOs* (model 14) and change in *Political Globalization* (model 15), *Fuel Exports* have a negative equilibrium effect. In model 16, in which the outcome is change in *CIJ Index*, the lagged and difference terms for *Fuel Exports* are negative and jointly significant. Conversely, *Nonfuel Exports* have an immediate, positive association with changes in *Costly IGOs* (model 14) and both an immediate and a long-term positive effect on changes in *CIJ Index* (model 16). In model 15, where the outcome is change in *Political Globalization*, the lagged and difference terms for *Nonfuel Exports* are positive and jointly significant. More generally, all the coefficients on *Fuel Exports* are negative and all the coefficients on *Nonfuel Exports* are positive. We interpret these results as broadly consistent with our argument that oil exports tend to hurt costly forms of international cooperation while other types of exports tend to promote costly cooperation.

A dichotomous indicator also allows us to graphically represent the differential effect that economic interconnectedness has on political globalization in oil-rich and oil-poor states. Figure 1 does so using simple fixed effects regressions that include interactions between oil exporter status and the share of a country's GDP that comes from merchandise trade (other than oil exports). For oil-poor countries, a higher share of trade to GDP correlates with higher levels of political globalization and more-binding commitments to IGOs with compulsory jurisdiction. This relationship does not hold for oil-rich states. Simply including trade as a proportion of GDP in the regression analysis would have delivered a null result. It is only

through the interaction with oil exporter status that we uncover the divergent effects that economic interconnectedness has on institutionalized cooperation.

In the supplementary materials we demonstrate that our findings are unchanged when we add *Oil Exports* to a model that takes state-IGO dyads as its unit of analysis (Donno, Metzger, and Russett 2015). The focus on dyadic pairs allows us to rule out the possibility that resource-rich states join fewer IGOs because they happen to be located in parts of the world that, for unrelated reasons, have fewer IGOs. The Donno-Metzger-Russett model also accounts for the probability that a state will be involved in a militarized interstate dispute; this is also an important test for our model because, under some conditions, oil rich states may be unusually prone to interstate conflict, which could explain why they join IGOs less frequently. We perform a replication of the published results and find that *Oil Exports* have a negative and significant correlation with the pairwise decision to join IGOs.

### Mechanisms

Do the two hypothesized mechanisms account for the adverse effects of oil exports on institutionalized cooperation? We can only address this issue in a limited way due to the paucity of data on oil-sector investments and trade access. Still, we demonstrate below that the available data are consistent with the two mechanisms, but not with a third possible mechanism: the effect of oil wealth on a country's regime type.

#### *The "Easy Foreign Investment" Mechanism*

Our first hypothesized mechanism is that oil wealth reduces cooperation by giving a state easy access to FDI, diminishing its incentive to sign international agreements to

protect the property rights of foreign investors. We scrutinize this mechanism by examining treaties that are designed to protect the property rights of foreign investors. If this argument is valid, we should observe that oil-rich states are unusually reluctant to agree to strong protections for foreign investors on their soil.<sup>20</sup>

We hence focus on the provisions contained in the BITs signed by oil exporters and their trade partners. These treaties determine how governments will handle compensation claims from foreign firms whose assets they have expropriated. Many providers of political risk insurance will not underwrite investments in developing countries unless a BIT is in place (UNCTAD 2006). Typically, BITs specify a home country from which most of the investment originates and a host country toward which the investment is directed.

For home states, BITs usually offer strong legal protection for large foreign investors. For the host government, BITs help them attract foreign investors by making commitments to refrain from expropriation, which may also aid in attracting new trade agreements with the home country (Tobin and Busch 2010). To make these commitments more credible, some BITs delegate the authority to resolve disputes to an international institution (usually the World Bank's ICSID). Rulings by ICSID are numerous, public, closely watched by investors, and are consequential for future FDI streams (Allee and Peinhardt 2011). They also generate sovereignty costs for host governments, who would typically prefer to have any disputes resolved by their own domestic courts or ad hoc arbitral tribunals whose decisions they could influence (Franck 2007).

If the foreign investment mechanism is valid, petroleum-rich states should have fewer incentives to make costly commitments to attract foreign investors: they may still sign BITs in order to satisfy the requirements of the political insurance industry, but they should be less likely to agree to the most costly provision (mandatory dispute resolution by ICSID).

Allee and Peinhardt (2010) code all publicly archived BITs for their level of delegation to ICSID. They create an ordinal variable, coded 0 in the absence of any delegation, 1 if ICSID is one of the options for dispute resolutions, and 2 if ICSID is the only venue for international arbitration. They argue that this variable reflects the degree of delegation in an ordinal way because governments usually have some control over the venue of arbitration if ICSID is only one of more options. Allee and Peinhardt identify a range of characteristics of host countries and home countries, as well as the bilateral relationship, that would make it more or less likely that a BIT will include an ICSID provision.<sup>21</sup>

In Table 6, we replicate their original ordered logit estimations (model 17), then add our *Oil Exports* variable for host countries; the coefficient is negative and statistically significant at the  $p = .05$  level (model 18). One shortcoming of this specification is that we do not consider dyads in which both host and home countries are major oil exporters. In model 19 we address this contingency by adding an interaction term to control for these dyads; this causes the negative effects of *Oil Exports* to grow larger and significant at the  $p = .01$  level. Interestingly, the results imply that in cases in which both home and host countries are oil exporters, the host becomes *more* likely to agree to ICSID arbitration, perhaps reflecting the fact that both states have similar leverage over the terms of the treaty. If we use dummy variables rather than the

continuous *Oil Exporter* variable to estimate these relationships (model 20) the results are unchanged.

The disparity between the practices of oil exporters as host countries and their practices as home countries is consistent with the “easy FDI” mechanism. It implies that the governments of oil exporters are not generally averse to signing investment treaties—including ones with mandatory ICSID jurisdiction—as long as these commitments mostly constrain their nonfuel trade partners. Their ability to negotiate these asymmetric provisions indicates they have exceptionally strong bargaining leverage over the terms of foreign investments.

#### *The “Easy Access to Foreign Markets” Mechanism*

Our second hypothesized mechanism is that oil exporters are less cooperative because they have easy access to foreign markets, reducing their incentive to sign trade-facilitating agreements. One observable implication is that oil exporters should enjoy atypically low barriers for their own exports, yet maintain atypically high import barriers.

Data on effective import and export barriers, which takes into account both tariff and nontariff barriers of each country's trade partners for each product they trade, is scarce. The only cross-national data we are aware of on “overall trade restrictiveness” was developed by Kee, Nicita, and Olarreaga (2009) and includes both a weighted measure of the tariff and nontariff restrictions that countries place on their imports and a weighted measure of the restrictions that the rest of the world places on their exports. Data on both import and export restrictiveness are only available for seventy-seven countries and a single year (2008), yielding too few observations for an in-depth analysis, but enough to look for suggestive evidence on the basic differences between oil exporters and non-oil exporters.

Figure 2 shows the measure of import restrictions on the horizontal axis and export restrictions on the vertical axis; countries that produce at least \$100 per capita in oil and gas are marked with solid dots and country abbreviations. Twenty-two of the thirty-two oil producers lie below the 45-degree line representing equal import and export barriers; this indicates that they place more restrictions on their imports than other countries place on their exports. By contrast, thirty-three of the forty-five non-oil producers place fewer restrictions on their imports than the rest of the world places on their exports. This is consistent with our hypothesized mechanism, which implies that relative to non-oil countries, oil exporters will enjoy fewer restrictions on their exports, while placing greater restrictions on their imports.

#### *Does democracy explain the link between oil and cooperation?*

An alternative mechanism might be generating our results: oil wealth could be making governments less democratic, which in turn might make them less cooperative. Many researchers find that when authoritarian states have more oil wealth, they become less likely to transition to democracy (Ross 2001; Aslaksen 2010).<sup>22</sup> Recent studies also find that democracies are more cooperative than nondemocracies and more likely to make credible commitments to international institutions (Mansfield, Milner, and Rosendorff 2002). Leaders in states that are democratizing—and who are therefore uncertain that democratic institutions will prevail—also have stronger incentives to commit to international institutions, because they may seek to lock in policies that a potentially undemocratic

**Table 6.** The effect of oil wealth on the willingness to sign BIT agreements with ICSID provisions (Replication from Allee and Peinhardt)

Variables	(17)	(18)	(19)	(20)
Oil exports/total exports host country		-0.39** (0.16)	-0.48*** (0.17)	
Oil export dependence host* home country major oil exporter		(0.56)	1.11**	
Host country major oil exporter				-0.40** (0.16)
Home country major oil exporter			-0.20 (0.18)	-0.16 (0.17)
Host country major oil exporter* home country major oil exporter			(0.25)	0.50**
Presence of MNCs in home	1.65** (0.71)	1.68** (0.72)	1.36* (0.74)	1.24 (0.77)
Strength of legal institutions in home	0.09** (0.04)	0.09** (0.04)	0.08* (0.04)	0.09** (0.04)
Strength of legal institutions in host	0.00 (0.04)	0.00 (0.04)	-0.01 (0.04)	-0.01 (0.04)
Durability of host regime	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Political constraints on executive in host	0.40** (0.19)	0.29 (0.20)	0.26 (0.20)	0.24 (0.20)
Alliance ties	-0.12 (0.08)	-0.12 (0.08)	-0.11 (0.08)	-0.10 (0.08)
Colonial ties	-0.15 (0.11)	-0.14 (0.11)	-0.15 (0.11)	-0.14 (0.12)
Domestic economic growth host	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)
Reliance on external financial assistance host	0.73* (0.39)	0.58 (0.39)	0.63 (0.40)	0.63 (0.40)
Export dependence host	0.01** (0.00)	0.01** (0.00)	0.00** (0.00)	0.00* (0.00)
Right wing government host	-0.01 (0.08)	-0.02 (0.08)	-0.06 (0.09)	-0.04 (0.09)
Host recently independent	-0.26** (0.10)	-0.25** (0.11)	-0.21* (0.11)	-0.21* (0.11)
Observations	1,031	1,031	982	939

Note: Standard errors in parentheses. BIT, Bilateral Investment Treaty; ICSID, International Centre for the Settlement of Investment Disputes; MNCs, Multinational Corporations. \* $p < .1$ , \*\* $p < .05$ , \*\*\* $p < .01$ .

successor would find it costly to withdraw from (Moravcsik 2000; Mansfield and Pevehouse 2008). Hence, oil could make states less likely to join international institutions by making them less democratic.

Note, however, that our estimations in Tables 3, 4, and 5 control for the effects of democracy, alternatively using the 21-point *Polity* scale, and the dichotomous *Democracy* measure coded by Cheibub, Gandhi, and Vreeland (2010). Even after accounting for any role that democracy may play, our estimations suggest that *Oil Exports* has a substantively large and statistically robust effect on well-established measures of institutionalized cooperation.

### Conclusion

For most countries, economic integration and political cooperation go hand-in-hand. As states become more integrated through trade, finance, and labor migration, they are incentivized to participate in intergovernmental institutions that harmonize regulations, stabilize relationships, and foster multilateral cooperation. Conversely, joining these institutions can help them attract foreign investors and trade partners by demonstrating their support for international standards, rules, and norms.

We show that the world's petroleum exporters do *not* follow this pattern. Rather, the more dependent they are on

oil exports, the *less* likely they are to join costly IGOs, to agree to compulsory third party jurisdiction, and to achieve a high score on the composite *KOF Political Globalization* measure. Though testing explanations for this pattern presents a challenge, we find evidence that when countries supply global markets with petroleum—the commodity on which virtually all modern economies depend—they appear to be liberated from the economic incentives that lead other countries toward cooperation and reciprocity.

The uncooperative actions of the oil exporters matter a great deal. Evidence suggests that some types of IGOs help states resolve conflicts peacefully (Oneal, Russett, and Berbaum 2003; Boehmer, Gartzke, and Nordstrom 2004; Pevehouse and Russett 2006) and comply with international law (Simmons 2000). They also seem to foster a convergence of interests among member states (Bearce and Bondanella 2007).<sup>23</sup> The more oil that a country exports, though, the less it enjoys these benefits.

We also suspect this can help explain why oil-rich countries like Russia, Venezuela, and Iran so frequently seem to violate international norms on a wide range of issues, including safeguarding the property of foreigners, adhering to reciprocal trade agreements, perhaps even financing of foreign insurgencies. It may also explain why other oil exporters remain politically isolated, despite their deep integration in the global economy.

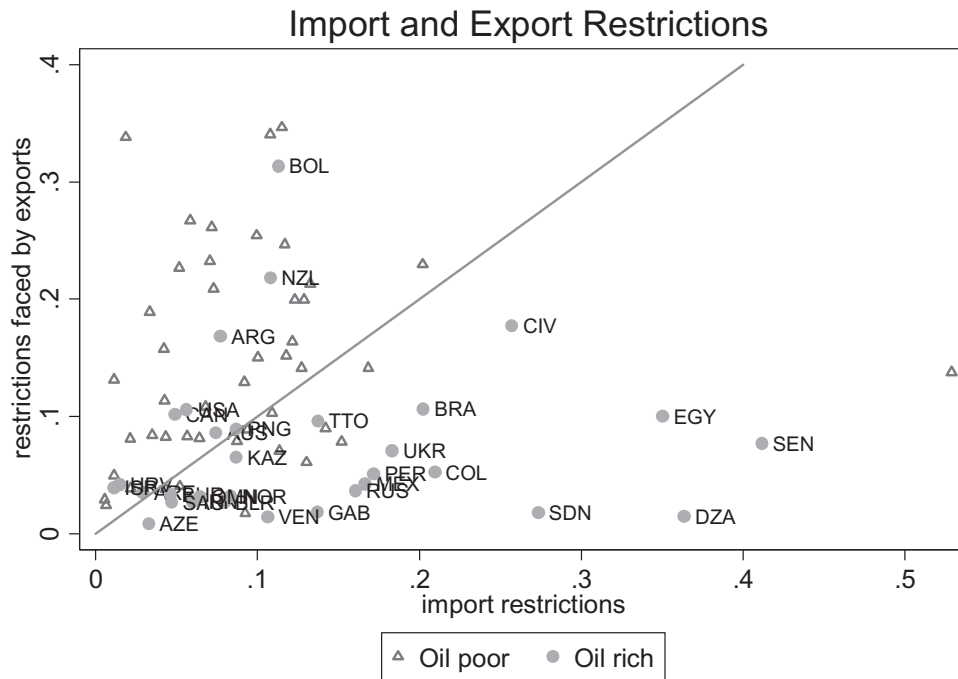


Figure 2. Import and export restrictions by oil exporter status.

For scholars of international institutions, our study contributes to a more fine-grained picture of the economic forces that foster political integration. One key implication is that being dependent on trade or finance is not sufficient to foster participation in binding international institutions. Instead, the need for foreign capital and access to foreign markets carries more weight.

Finally, our study supplements the comparative politics literature on the “resource curse,” which looks at the perverse economic and political consequences that can follow the discovery of natural resource wealth. Most of this scholarship looks at the consequences of oil or mineral wealth for a country’s economy (Sachs and Warner 1995), its conflict risk (Collier, Hoeffler, and Rohner 2009; Lujala 2010), and its institutions (Karl 1997; Jones and Weinthal 2010; Ross 2012). This study contributes to a newer body of research on the implications of oil wealth for a country’s international role (Rudra and Jensen 2011; Colgan 2010). It also revisits a question an earlier generation of scholars in the 1970s and 1980s raised: why the oil exporters are a distinctive, and often troublesome, force in the international system (Cowhey 1985; Tetreault 1985; Wilson 1987).

States vary widely in their willingness to participate in international institutions. For countries that are economically isolated or of marginal global importance, this might not be cause for concern. Yet for countries that control the world’s supply of petroleum, an unwillingness to cooperate should be worrisome because these states have extraordinary influence over the economic fortunes and security of other countries, but are relatively unfettered by the international institutions that normally accompany this level of influence.

### Acknowledgments

An earlier version of this article was presented at the Annual Meetings of the American Political Science Association (Seattle, WA September 3, 2011), the

International Studies Association, Vanderbilt University, Georgetown University’s Mortara political economy workshop, IPES (Madison), Yale University, Cornell University, Washington University, BI Norwegian Business School, University of Toulouse, University of Southern California, and Oxford University. For useful comments, we thank the participants at those workshops, Jørgen Juel Andersen, Carol Atkinson, Marc Busch, Jeff Colgan, Giacomo Chiozza, Keith Darden, Nuno Monteiro, Kevin Morrison, Ron Rogowski, Ken Scheve, Nick Sambanis, Sidney Tarrow, Zak Taylor, and Mike Tomz. We are grateful to Etienne Poliquin for excellent research assistance.

### References

- ALLEE, TODD, AND CLINT PEINHARDT. 2010. Delegating Differences: Bilateral Investment Treaties and Bargaining over Dispute Resolution Provisions. *International Studies Quarterly* 54(1): 1–26
- ALLEE, TODD, AND CLINT PEINHARDT. 2011. “Contingent Credibility: The Reputational Effects of Investment Treaty Disputes on Foreign Direct Investment.” *International Organization* 65: 410–32.
- ANDERSEN, JØRGEN J., AND MICHAEL L. ROSS. 2014. “The Big Oil Change A Closer Look at the Haber–Menaldo Analysis.” *Comparative Political Studies* 47(7): 993–1021.
- ASLAKSEN, SILJE. 2010. “Oil as Sand in the Democratic Machine?” *Journal of Peace Research* 47: 421–31.
- AVERY, WILLIAM. 1976. “Oil, Politics, and Economic Policy Making: Venezuela and the Andean Common Market.” *International Organization* 30: 541–71.
- BASRI, M. CHATIB, AND HAL HILL. 2004. “Ideas, Interests and Oil Prices: The Political Economy of Trade Reform During Soeharto’s Indonesia.” *The World Economy* 27(5): 633–55.
- BEARCE, DAVID, AND STACY BONDANELLA. 2007. “Intergovernmental Organizations, Socialization, and Member-State Interest Convergence.” *International Organization* 61: 703–33.
- BECK, NATHANIEL. 2001. “Time-Series-Cross-Section Data: What Have We Learned in the Past Few Years?” *Annual Review of Political Science* 4(1): 271–93.
- BERGER, AXEL, MATTHIAS BUSSE, PETER NUNNENKAMP, AND MARTIN ROY. 2012. “Do Trade and Investment Agreements Lead to More FDI?”

- Accounting for key provisions inside the black box." *International Economics and Economic Policy* 10: 247–75.
- BOEHMER, CHARLES, ERIK GARTZKE, AND TIMOTHY NORDSTROM. 2004. "Do Intergovernmental Organizations Promote Peace?" *World Politics* 57(1): 1–38.
- BUSSE, MATTHIAS, JENS KÖNIGER, AND PETER NUNNENKAMP. 2010. "FDI Promotion through Bilateral Investment Treaties: More Than a BIT?" *Review of World Economics* 146(1): 147–77.
- BÜTHE, TIM, AND HELEN MILNER. 2008. "The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?" *American Journal of Political Science* 52: 741–62.
- BÜTHE, TIM, AND HELEN V. MILNER. 2014. "Foreign Direct Investment and Institutional Diversity in Trade Agreements: Credibility, Commitment, and Economic Flows in the Developing world, 1971–2007." *World Politics* 66(1): 88–122.
- CHEIBUB, JOSE ANTONIO, JENNIFER GANDHI, AND JAMES R. VREELAND. 2010. "Democracy and dictatorship revisited." *Public Choice* 143(1): 1–35.
- COLGAN, JEFFREY. D. 2010. "Oil and Revolutionary Governments: Fuel for International Conflicts." *International Organization* 64: 661–94.
- COLGAN, JEFFREY. D. 2014. "The Emperor Has No Clothes: The Limits of OPEC in the Global Oil Market." *International Organization* 68: 599–632.
- COLLIER, PAUL, ANKE HOEFFLER, AND DOMINIC ROHNER. 2009. "Beyond Greed and Grievance: feasibility and civil war." *Oxford Economic Papers*. 61: 1–27.
- CORDEN, W. MAX, AND PETER J. NEARY. 1982. "Booming Sector and De-industrialization in a Small Open Economy." *The Economic Journal* 92: 825–48.
- COWHEY, PETER. 1985. *The problems of plenty: energy policy and international politics*. Berkeley, CA: University of California Press.
- DAVIS, CHRISTINA L. 2004. "International Institutions and Issue Linkage: Building Support for Agricultural Trade Liberalization." *American Political Science Review* 98(1): 153–69.
- DAVIS, CHRISTINA, AND MEREDITH WILF. 2011. *Joining the Club: Accession to the GATT/WTO*. APSA 2011 Annual Meeting Paper, Seattle (WA).
- DONNO, DANIELA, SHAWNA METZGER, AND BRUCE RUSSETT. 2015. "Screening Out Risk: IGOs, Member State Selection, and Interstate Conflict, 1951–2000." *International Studies Quarterly* 59(2): 251–63.
- DREHER, AXEL. 2006. "Does Globalization Affect Growth? Empirical Evidence from a new Index." *Applied Economics* 38: 1091–110.
- DREHER, AXEL, HEINER MIKOSCH, AND STEFAN VOIGT. 2014. "Membership Has its Privileges: The Effect of Membership in International Organizations on FDI." *World Development* 66: 346–58.
- FRANCK, SUSAN. 2007. "Foreign Direct Investment, Investment Treaty Arbitration and the Rule of Law." *McGeorge Global Business and Development Law Journal* 19: 337–68.
- GALLAGHER, KEVIN. 2004. *FreeTrade and the Environment: Mexico, NAFTA, and Beyond*. Palo Alto, CA: Stanford University Press.
- GOLOB, STEPHANIE R. 2003. "Beyond the Policy Frontier: Canada, Mexico, and the Ideological Origins of NAFTA." *World Politics* 55: 361–98.
- GURMENDI, ALFREDO C. 2011. *The Mineral Industry of Venezuela*. In *2011 Minerals Yearbook*, edited by USGS, 16.1–16.10. Washington DC: United States Geological Survey.
- HAAS, ERNST B. 1964. *Beyond the Nation State: Functionalism and International Organization*. Palo Alto, CA: Stanford University Press.
- HABER, STEPHEN, AND VICTOR MENALDO. 2011. "Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse." *American Political Science Review* 105(1): 1–26.
- HAFNER-BURTON, EMILIE M., JANA VON STEIN, AND ERIK GARTZKE. 2008. "International organizations count." *Journal of Conflict Resolution* 52(2): 175–88.
- HAGGARD, STEPHAN, AND BETH A. SIMMONS. 1987. "Theories of International Regimes." *International Organization* 41: 491–517.
- HARDING, TORFINN, AND ANTHONY J. VENABLES. 2013. *The Implications of Natural Resource Exports for Non-Resource Trade*. CEPR Discussion Paper No. DP9318. Available at SSRN: <http://ssrn.com/abstract=2210289> (accessed July 9, 2015).
- HOEKMAN, BERNARD, AND PATRICK A., MESSERLIN. 2002. *Initial Conditions and Incentives for Arab Economic Integration: Can the European Community's Success Be Emulated?* 2002. World Bank Policy Research Working Paper No. 2921. Available at SSRN: <http://ssrn.com/abstract=636283> (accessed July 9, 2015).
- HOGAN, WILLIAM, AND FEDERICO STURZENEGGER. 2010. *The Natural Resources Trap*. Cambridge, MA: MIT Press.
- INGRAM, PAUL, JEFFREY ROBINSON, AND MARC BUSCH. 2005. "The Intergovernmental Network of World Trade: IGO Connectedness, Governance, and Embeddedness." *American Journal of Sociology* 111: 824–58.
- JENSEN, NATHAN, 2008. *Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment*. Princeton, NJ: Princeton University Press.
- JENSEN, NATHAN, AND NOEL JOHNSTON. 2011. "Political Risk, Reputation, and the Resource Curse." *Comparative Political Studies* 44: 662–88.
- JENSEN, NATHAN, ANDREW MARTIN, AND ANTON WESTVELD. 2010. *Modeling Foreign Direct Investment as a Longitudinal Social Network*. Paper presented at the 24th annual Society for Political Methodology Summer Conference, Penn State University, July 18–21, 2007.
- JONES LUONG, PAULINE, AND ERIKA WEINTHAL. 2010. *Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States*. New York, NY: Cambridge University Press.
- KARL, TERRY L. 1997. *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley, CA: University of California Press.
- KEE, HIAU LOOI, ALESSANDRO NIGITA, AND MARCELO OLARREAGA. 2009. "Estimating Trade Restrictiveness Indices." *Economic Journal* 119: 172–99.
- KENYON, TOM, AND YOTAM MARGALIT. 2014. *Does Joining International Treaties Attract Foreign Direct Investment? Experimental Firm-Level Evidence*. Mimeo. <http://www.columbia.edu/~ym2297/KenyonMargalit> (accessed July 1, 2015).
- KEOHANE, ROBERT O. 1982. "The Demand for International Regimes." *International Organization* 36: 325–55.
- KEOHANE, ROBERT O. 1984. *After Hegemony: Cooperation and discord in the world political economy*. Princeton, NJ: Princeton University Press.
- KEOHANE, ROBERT O., AND JOSEPH NYE. 1977. *Power and Interdependence*. New York, NY: Little, Brown, and Company.
- KELLEY, JUDITH. 2007. "Who Keeps International Commitments and Why? The International Criminal Court and Bilateral Nonsurrender Agreements." *American Political Science Review* 101(3): 573–89.
- KERNER, ANDREW. 2014. "What We Talk About When We Talk About Foreign Direct Investment." *International Studies Quarterly* 58(4): 804–15.
- LEBOVIC, JAMES H. 2004. "Uniting for peace? Democracies and United Nations peace operations after the Cold War." *Journal of Conflict Resolution* 48(6): 910–36.
- LUJALA, PÄIVI. 2010. "The Spoils of Nature: Armed Civil Conflict and Rebel Access to Natural Resources." *Journal of Peace Research* 47(1): 15–28.
- MAGUD, NICOLAS, AND SEBASTIAN SOSA. 2010. *When and Why Worry about Real Exchange Rate Appreciation? The Missing Link Between Dutch Disease and Growth*. *IMF Working Papers* 10/271, Washington, DC: International Monetary Fund.
- MANSFIELD, EDWARD D., AND JON C. PEVEHOUSE. 2006. "Democratization and international organizations." *International Organization* 60(1): 137–67.
- MANSFIELD, EDWARD, AND JON PEVEHOUSE. 2008. "Democratization and the Varieties of International Organizations." *Journal of Conflict Resolution*, 52(2): 269–94.
- MANSFIELD, EDWARD, HELEN V. MILNER, AND JON PEVEHOUSE. 2008. "Democracy, Veto Players and the Depth of Regional Integration." *The World Economy* 31(1): 67–96.
- MANSFIELD, EDWARD, HELEN V. MILNER, AND PETER ROSENDORFF. 2002. "Why Democracies Cooperate More: Electoral Control and International Trade Agreements." *International Organization* 56(3): 477–513.
- MARTIN, LISA L. 2000. *Democratic Commitments: Legislatures and International Cooperation*. Princeton, NJ: Princeton University Press.
- MARSHALL, MONTY, AND KEITH JAGGERS. 2011. *Polity IV Project, Political Regime Characteristics 1800–2010*. <http://www.systemicpeace.org/polity/polity4.htm> (accessed July 10, 2015).
- MATTLI, WALTER. 1999. *The Logic of Regional Integration: Europe and Beyond*. New York, NY: Cambridge University Press.
- MILNER, HELEN V. 1997. *Interests, Institutions, and Information: Domestic Politics and International Relations*. Princeton, NJ: Princeton University Press.
- MITCHELL, SARA McLAUGHLIN, AND EMILIA JUSTYNA POWELL. 2009. "Legal Systems and Variance in the Design of Commitments to the

- International Court of Justice." *Conflict Management and Peace Science* 26(2): 164–90.
- MITCHELL, SARA McLAUGHLIN. 2002. "A Kantian System? Democracy and Third-Party Conflict Resolution." *American Journal of Political Science* 46(4): 749–59.
- MORAVCSIK, ANDREW. 1998. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca, NY: Cornell University Press.
- MORAVCSIK, ANDREW. 2000. "The Origins of Human Rights Regimes." *International Organization* 54(2): 217–52.
- MOSES, JONATHAN, AND ANDERS TODAL JENSSEN. 1998. Nordic Accession: An Analysis of the Nordic Referendums. In *Forging an Integrated Europe*, edited by B. Eichengreen and J. A. Frieden, 211–46. Ann Arbor, MI: University of Michigan Press.
- NEARY, J. PETER, AND SWEDER VAN WIJNBERGEN. 1986. *Natural Resources and the Macroeconomy*. Cambridge MA: MIT Press.
- ONEAL, JOHN, BRUCE RUSSETT, AND MICHAEL BERBAUM. 2003. "Causes of Peace: Democracy, Interdependence, and International Organizations, 1885–1992." *International Studies Quarterly* 47: 371–93.
- PEVEHOUSE, JON, AND BRUCE RUSSETT. 2006. "Democratic International Governmental Organizations Promote Peace." *International Organization* 60: 969–1000.
- ROSS, MICHAEL L. 2001. "Does Oil Hinder Democracy?" *World Politics* 53: 325–61.
- ROSS, MICHAEL L. 2011. Oil and Gas Production and Value, 1932–2009. <http://hdl.handle.net/1902.1/20369>, Harvard Dataverse, V2 (accessed July 1, 2015)
- ROSS, MICHAEL L. 2012. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton, NJ: Princeton University Press.
- ROSS, MICHAEL L. 2015. "What Have We Learned About the Resource Curse?" *Annual Review of Political Science* 18: 239–59.
- RUDRA, NITA, AND NATHAN JENSEN. 2011. "Globalization and the Politics of Natural Resources." *Comparative Political Studies* 44: 639–61.
- RUGGIE, JOHN G. 1982. "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order." *International Organization* 36(2): 379–415.
- SACHS, JEFFREY, AND ANDREW WARNER. 1995. Natural Resource Abundance and Economic Growth. Development Discussion Paper 517a, Harvard Institute of International Development. Cambridge, MA.
- SIMMONS, BETH. 2000. "International Law and State Behavior: Commitment and Compliance in International Monetary Affairs." *American Political Science Review* 94: 819–35.
- STUBBS, RICHARD. 2000. "Signing on to Liberalization: AFTA and the Politics of Regional Economic Integration." *The Pacific Review* 13: 297–318.
- TETREAU, MARY ANN. 1985. *Revolution in the World Petroleum Market*. Westport, CT: Quorum Books.
- TOBIN, JENNIFER L., AND MARC L. BUSCH. 2010. "A BIT is Better Than a Lot: Bilateral Investment Treaties and Preferential Trade Agreements." *World Politics* 62(1): 1–42.
- TOBIN, JENNIFER, AND SUSAN ROSE-ACKERMAN. 2011. "When BITs Have Some Bite: The Political-Economic Environment for Bilateral Investment Treaties." *Review of International Organizations* 6(1): 1–32.
- UNCTAD. 2006. Developments in International Investment Agreements in 2005. *IIA Monitor*.
- VENABLES, ANTHONY. 2011. Economic Integration in Remote Resource-Rich Regions. In *Costs and benefits of economic integration in Asia*, edited by Robert Barro and J. W. Lee, 187–207. Oxford: Oxford University Press.
- VERNON, RAYMOND. 1971. *Sovereignty at Bay: The Spread of U.S. Enterprises*. New York, NY: Basic Books.
- VOETEN, ERIK. 2012. An Index of Legal Globalization. Paper presented at Workshop on International Authority, Wissenschaftszentrum Berlin, February 25, 2012.
- VON STEIN, JANA. 2005. "Do Treaties Constrain or Screen? Selection Bias and Treaty Compliance." *American Political Science Review* 99(4): 611–22.
- WATHE, KIMBERLY, TROY LORDE, AND BRIAN FRANCIS. 2011. "Export-led Growth: A Case Study of Mexico." *International Journal of Business, Humanities and Technology* 1(1): 33–44.
- WELLHAUSEN, RACHEL. 2015. "Bondholders v. Direct Investors? Competing Responses to Expropriation." *International Studies Quarterly*, 10.1111/isqu.12194 (accessed July 10, 2015).
- WILSON III, ERNEST J. 1987. "World Politics and International Energy Markets." *International Organization* 41: 125–49.
- World Bank. 2008. *República Bolivariana de Venezuela: Trade Brief*. Washington, DC: World Bank Publications.
- World Bank. 2012. *World Development Indicators 2012*. Washington, DC: World Bank Publications.
- World Trade Organization. 2011. *World Tariff Profiles 2011*. [https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles11\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles11_e.pdf). (accessed July 5, 2015).
- World Trade Organization. 2002. *Trade Policy Review: Venezuela. Report by the Secretariat*. WT/TPR/S/108. Geneva: World Trade Organization.
- YAGER, THOMAS R. 2010. The Mineral Industry of Sudan. In *2010 Minerals Yearbook*, edited by U. S. G. Survey, 38.1–38.4. Washington, DC: United States Geological Survey.